

The citywide operating budget for FY 1999-00 totals \$197.9 million and for FY 2000-01 totals \$208.8 million. These operating budget amounts represent 3.9% and 5.5% growth respectively for the two fiscal years. This includes \$7.6 million, in both fiscal years, for Community Development Block Grant and Section 8 Housing grant funding. The number of full-time employees for FY 1999-00 totals 1,623, a 4.3% increase from the prior year, and 1,657 in FY 2000-01, representing a 2.1% increase.

General Fund appropriations grew by 10.8% and 7.0% over both fiscal years. This primarily reflects funding for new employees to address workload increases in the Police Department, Public Works, Development Services, Council priorities in Community Services, and increases for employee cost of living adjustments and inflation.

Much of the operating budget growth was due to an increase in Police staff for patrol and key support functions. Community Services also increased, reflecting the City's continued commitment to youth and social services programs. Water and wastewater enterprise fund operations fell by 1.3% in FY 1999-00 as the City implemented plans from a recent competitiveness study.

## General Fund

### Fund Structure

#### Description

The General Fund is the general operating fund of the City and is used to account for all financial activity not reflected in another fund.

#### Major Services

The General Fund consists of the following major functions:

- Administrative Services
- Police
- Fire
- Management/Financial Services
- Legal Services

- Community Services
- Development Services
- Engineering
- Facility Maintenance

### Revenue Structure

Major revenue sources for the two fiscal years are: Local Sales Taxes, Intergovernmental Revenues, Charges for Services, Property Taxes, Fines and Forfeitures and All Other.

The following table depicts the major revenue sources as percentages of General Fund revenue.

Major Revenue Sources	FY 1999-00	FY 2000-01
Local Sales Taxes	49.7%	50.3%
Intergovernmental	27.3%	27.2%
All Other	8.8%	8.2%
Charges for Service	5.6%	5.5%
Property Tax	5.0%	5.1%
Fines and Forfeitures	3.6%	3.7%

Local Sales Taxes and Intergovernmental revenues represent the two major revenue sources in the General Fund. Together they comprise 76.8% or \$95.6 million of the total \$124.5 million FY 1999-00 General Fund revenues. In FY 2000-01 the two sources are estimated to account for \$98.7 million or 77.6% of the \$127.2 million in General Fund revenues.

#### ■ Local Sales Taxes

Local sales tax revenues are estimated at \$61.9 million in FY 1999-00 and \$64.1 million in FY 2000-01, derived from a 1.2% City sales tax. (The estimated sales tax collections amount is based on the non-Transit portion of the City sales tax rate of 1.7%. The remaining 0.5% is restricted to transit purposes and is reflected in the Transit Fund). Over half of the sales tax revenue comes from retail sales, with the remainder collected primarily from rental payments, utility and telecommunication

payments, restaurant and bar sales and contracting sales.

While Tempe's single largest revenue source is highly responsive to changes in economic activity (i.e., elastic), the diverse and robust nature of the City's economy has provided for steady annual increases.

#### **Intergovernmental Revenue**

Revenues in this category are derived from three sources of state-levied revenue sharing: the state sales tax, the state income tax, and vehicle license taxes. Intergovernmental revenues represent \$33.7 million or 27.3% in FY 1999-00 and \$34.6 million or 27.2% in FY 2000-01 of total General Fund revenues.

The primary allocation basis for state revenue sharing is each city or town's relative share of the state's population of all incorporated cities and towns. Municipalities may choose population counts from either the 1990 Census, a Special Census, or 1995 population estimates prepared by the state Department of Economic Security. Tempe's allocations are based on a 1995 Special Census.

#### *State sales tax*

Estimated state sales tax distributions total \$12.2 million in FY 1999-00 and \$12.4 million in FY 2000-01. Tempe's allocation is based on its share of total statewide incorporated population (currently 4.5%). The size of the overall pool of funding available for distribution is based on state statute, which provides for the allocation of 8.9% of transaction privilege (sales) tax revenue to cities and towns. The total statewide sales tax pool is estimated to be \$286.3 million.

#### *State income tax*

Total estimated state-shared income tax revenues to be distributed to Arizona cities and towns for the two fiscal years are \$377.7 million and \$388.9 million respectively. For FY 1999-00, the local share will remain at 15.8% holding cities and towns harmless from state tax cuts.

However, due to 1999 state legislation, the local share will fall to 15%, resulting in an estimated \$700,000 loss for Tempe in FY 2000-01. Still, growth in FY 1999-00 will be quite high by historical standards, driven by statewide population and personal income growth.

#### *Vehicle license tax*

The remaining state-shared revenues of \$4.7 million in FY 1999-00 and \$4.8 million in FY 2000-01 derive from vehicle license taxes. Twenty-five percent of the net revenues collected for the licensing of motor vehicles by a county is distributed to incorporated towns and cities within the county. Tempe receives a share of the vehicle license tax collections based on its population in relation to the total incorporated population of the county.

Only slight growth is estimated for the biennium, due primarily to the expected decline in auto sales and the continued recovery of overpayments made by Maricopa County over a three year period from 1992 until 1995. Vehicle license tax payments to Tempe will be reduced by \$219,000 per year for three years to fully recover the county's overpayments.

#### ■ **Charges for Services**

Charges for services represent \$6.9 million or 5.6% in FY 1999-00 and \$7.0 million or 5.5% in FY 2000-01 of total General Fund revenues. Recreation and social services programs represent \$3.8 million and \$3.9 million in the respective budget years. By Council policy, certain recreation and social service programs operate on a full or partial cost recovery basis. Other Charges for Services revenues derive from development-related charges for building and trade permits, planning and zoning fees, and engineering fees.

#### ■ **Property Tax**

Tempe's property tax rate is \$1.40 per \$100 of assessed valuation, consisting of a primary tax rate of \$0.55 per \$100 of assessed valuation and a secondary tax rate

of \$0.85 per \$100 of assessed valuation. Only the primary levy goes to the General Fund. While there is no restriction on its usage, the primary levy is limited by state law to a 2% annual increase plus any amount generated by new construction. The primary levy is estimated at \$6.2 million in FY 1999-00 and \$6.5 million for FY 2000-01.

#### ■ Fines and Forfeitures

Fines and forfeitures represent \$4.4 million in FY 1999-00 and \$4.7 million in FY 2000-01 of total General Fund revenues. Traffic Fines represent \$1.4 million or 30.4% in FY 1999-00 and \$1.6 million or 33.3% in FY 2000-01 of total fines collected. Rounding out the fines and forfeiture revenue sources is defensive driving school fees, parking fines, and criminal fines, along with delinquent collections and default fees.

#### ■ All Other

Other General Fund revenue sources include Interest Income, Transient Lodging (Hotel/Motel Bed) Tax, Franchise Fees, Licenses and Permits, the Salt River Project Payment In-Lieu of Property Taxes and other miscellaneous revenue.

### Expenditure Structure

The General Fund operating budget for FY 1999-00 totals \$105.1 million and \$112.5 million for FY 2000-01. Major expenditure categories are: Personal Services, Fees and Services, Materials and Supplies, Capital Outlay, and All Other.

The following table depicts the major expenditure categories as a percentage of total appropriations. The General Fund consists of all City operations with the exception of Enterprise Fund operations (Water, Sanitation, and Golf), Transportation (LTAF and HURF), Transit, Rio Salado and Debt Service.

For FY 1999-00, Personal Services (salaries, wages and benefits) account for

Major Expenditure Categories	FY 1999-00	FY 2000-01
Personal Services	76.4%	77.3%
Fees and Services	15.1%	15.4%
Material and Supplies	6.2%	5.8%
Capital Outlay/All Other	2.3%	1.5%

\$80.3 million or 76.4% of the \$105.1 million total General Fund operating budget. The remaining appropriations consist of \$15.9 million or 15.1% for Fees and Services, \$6.5 million or 6.2% for Materials and Supplies, \$2.4 million or 2.3% for Capital and All Other. In FY 2000-01, General Fund appropriations for Personal Services consist of \$87 million or 77.3% of the \$112.5 million budget, \$17.3 million or 15.4% for Fees and Services, \$6.5 million or 5.8% for Materials and Supplies and, \$1.7 million or 1.5% for Capital and All Other.

#### ■ Personal Services

Since most personnel and major functions of city government are located within the General Fund, it is not surprising that salaries and wages represent such a significant proportion of total expenditures. Respectively for the two fiscal years, salaries and wages account for \$65.5 million of the \$105.1 million and \$70.1 million of the \$112.2 million in total General Fund appropriations. Personal Services will continue to represent the major portion of fund expenditures regardless of any policy changes over the next five years. Fringe benefits represent \$14.8 million and \$16.8 million respectively of the total two year General Fund budgets.

#### ■ Fees and Services

For the two fiscal years, this budget category comprises 15.1% (FY 1999-00) and 15.4% (FY 2000-01) of total General Fund appropriations. The largest portion of this expense category is for contracted services, accounting for 21.4% and 26.0%

respectively of total Fees and Services. Contracted services make up an increasing share of Fees and Services costs due in part to the City's practice of contracting for services rather than adding personnel. Utilities (electricity, water, refuse, and sewer) comprise the second largest share (19.6% and 18.5%) of total Fees and Services. Unlike most of the Fees and Services accounts, utility expenses are expected to increase somewhat slower than inflation. Other major Fees and Services expenditures for FY 1999-00 include software maintenance agreements (7.1%), equipment rental and repair (5.5%), telephone service (4.5%), and county jail costs (3.9%). For FY 2000-01 major expenditures include software maintenance agreements (8.0%), equipment rental and repair (5.2%), telephone service (4.2%), and county jail costs (4.1%).

#### ■ Materials and Supplies

Totaling \$6.5 million in each fiscal year, expenditures for Materials and Supplies respectively account for 6.2% and 5.8% of the total General Fund operating budgets. In each fiscal year 16.1% (\$1.0 million) of these expenditures derive from motor vehicle parts, fuels, and lubricants. The remainder is for library bookstock, clothing allowances, general office supplies, minor equipment, and miscellaneous supplies. Increases in Materials and Supplies over the next five years are expected to be driven largely by inflation.

#### ■ Capital Outlay/All Other

Capital Outlay accounts for \$2.1 million or 2.3% in FY 1999-00 and \$1.7 million or 1.5% in FY 2000-01 of the total General Fund operating budgets. Respectively over the next two fiscal years, funding for replacement and new equipment (primarily automobiles and trucks) constitutes the largest portion (49.4% and 49%), with computer replacement making up 15.2% and 21.8% of total Capital Outlay. Other major Capital Outlay budgeted items include radios, turf equipment and office equipment. Within the All Other category are budgeted

amounts for contingencies, travel, contributions to community service organizations and the local convention and visitors bureau, and payment to the county for animal control.

### Operating Revenues and Expenditures

Revenue growth in FY 1993-94 and FY 1994-95 averaged over 20% annually, primarily the result of a voter-approved increase in the sales tax rate from 1% to 1.2% in September 1993. A strong and increasingly diversified local economy has contributed to continued growth in revenues, producing 12.5% average annual revenue growth over the past five years. However, we expect this level of growth to slow as the national and state economy enter a period of predicted slower growth.

General Fund expenditure growth over the past five years has averaged just under 10% annually. In addition to the cost of inflation, spending has increased to address high priority areas such as public safety, recreation, and development services.

Operating surpluses have been utilized for "pay-as-you-go" financing in the Capital Improvements Program. This year and throughout the forecast period "pay-as-you-

FYE	Revenues (\$ Millions)	Expenditures (\$ Millions)
1991-92	62.0	60.7
1992-93	64.5	62.1
1993-94	75.6	70.8
1994-95	94.4	70.8
1995-96	99.9	78.2
1996-97	104.2	81.1
1997-98	108.2	91.2
1998-99*	118.3	92.5
1999-00*	124.5	105.1
2000-01*	127.2	112.5



go" financing for the Capital Improvements Program is expected to average \$5.1 million per year, while the impact of capital improvement projects on the operating budget approximates \$750,000 per year.  
\*Estimated

The projected fund balance for the General Fund at the end of FY 1998-99 is \$34.7 million, a \$1.6 million increase from FY 1997-98.

#### **Program Budget Summary**

The following section describes the allocation of funding for the major functional, or program areas of Tempe city government. The General Fund for FY 1999-00 totals \$105.1 million, a \$10.3 million or 10.8% increase over FY 1998-99. The FY 2000-01 appropriations increased by \$7.4 million or 7% to \$112.5 million. Most General Fund spending growth is related to the addition of positions and contracted services funding to address workload factors and Council priorities, plus increases for inflation.

As the table on the following page depicts, Public Safety (police and fire protection) comprises the largest share of the FY 1999-00 and FY 2000-01 General Fund budgets. Funding for Public Safety increased by the largest dollar amount among the program

areas, reflective of a high Council priority.

#### **■ General Services Program**

General Services appropriations account for 21.4% of the General Fund budgets in FY 1999-00 and FY 2000-01. This area includes appropriations for Mayor and Council, City Manager, Other Programs, City Clerk, Human Resources, City Attorney, Equipment Management, Information Technology, Accounting, Purchasing, and Risk Management. Funding for General Services increased in FY 1999-00 to \$22.6 million, a \$2.4 million increase over FY 1998-99. The FY 2000-01 appropriations increased by \$1.5 million to \$24 million. These increases are due primarily to technology related and personnel costs.

#### **■ Development Services Program**

In both fiscal years, approximately 8% of the General Fund appropriations are earmarked for Development Services. This program area includes the functions of building safety inspections, planning and zoning, and public works engineering. The FY 1999-00 \$8.3 million budget represents a 7% increase, while the FY 2000-01 \$8.6 million budget reflects a 4% increase. This is primarily due to new FTE positions and additional contracted staff to manage workload associated with redevelopment and neighborhood development.

Program	FY 1998-99	FY 1999-00	FY 2000-01
General Services	\$20,185,095	\$22,558,384	\$24,011,195
Development Services	7,756,298	8,288,322	8,627,205
Public Safety	44,388,980	51,570,250	56,190,145
Environmental Health	1,373,766	1,538,854	1,629,516
Community Services	19,282,648	19,251,003	20,146,736
Transportation	1,850,000	1,850,000	1,850,000
<b>Total General Fund Operating Expenditures</b>	<b>\$94,836,787</b>	<b>\$105,056,812</b>	<b>\$112,454,797</b>



### ■ **Public Safety Program**

Public Safety continues to represent the largest appropriations area, accounting for 49% or \$51.6 million in FY 1999-00 and 50% or \$56.1 million in FY 2000-01 of the total General Fund budgets. It includes appropriations for Police, Fire, and City Court.

Increases in the Public Safety program are driven by increased Police staff. As a result of a comprehensive study of police staffing levels, 20 positions were added in patrol and support areas to address workload concerns.

### ■ **Community Services**

This area consists of all Community Services divisions (Parks and Recreation, Library, Social Services, Cultural Services and Historical Museum), along with Parks Maintenance, Baseball Facilities, Golf Courses, and Facility Services.

General Fund appropriations for Community Services represent 18% or \$19.3 million in FY 1999-00 and \$20.1 million in FY 2000-01. Much of the new funding focused on the expansion and creation of new recreational youth and social services programs, as well as enhanced library services.

### ■ **Environmental Health Program**

With most of our Environmental Health appropriations residing in the Enterprise Funds, this area represents just 1.4% in both fiscal years of the General Fund appropriations and consists of Field Services Administration and Environmental Management. Inflationary related costs drove increases in this area.

### ■ **Transportation Program**

This area reflects 2.0% of total General Fund appropriations in both fiscal years as most of our transportation appropriations are budgeted in the Special Revenue Transportation Funds. The \$1.85 million appearing in this area represents the General Fund's requirement for Maintenance of Effort, a statutory requirement to maintain revenue for streets at a level computed as an average of local funds expended for any four of the fiscal years 1981-82 through 1985-86.

## **Transit Fund**

### **Fund Structure**

#### **Description**

The Transit Fund is a Special Revenue fund established to account for the receipt and expenditure of the City's transit tax and the one-third commitment of Lottery proceeds for mass transit.

#### **Major Services**

This fund provides for:

- Planning and Design
- Operations
- Procurement
- Transit Community Outreach and Marketing

### **Revenue Structure**

Transit Fund revenues come primarily from a ½cent City sales tax to fund transit improvements and a one-third commitment of state Lottery proceeds for mass transit.

#### ■ **Transit Tax**

On September 10, 1996, the citizens of Tempe approved a ½cent increase in the City sales tax to fund transit improvements. Proposition 400 limited the expenditure of the additional sales tax to improvements such as additional bus routes, alternative fuel buses, bus pullouts, and rail studies. For FY 1999-00, the transit tax is expected to generate \$26.3 million in revenue, or 94.3% of total Transit Fund revenues and FY 2000-01 is estimated at \$27.2 million or 96.3%.



### ■ Lottery Proceeds

Per state statute (Arizona Revised Statutes §28-2502 (F)), a municipality with a population of 60,000 or more persons is required to spend one-third of its local transportation monies for public transportation each fiscal year. Total Lottery proceeds are expected to be \$937,700 in FY 1999-00 and \$925,500 in FY 2000-01, which represent a slight decrease, a trend that is likely to continue as Tempe's population growth rate remains below those of other cities. The downturn in total Lottery proceeds translates into a gradual decline in the one-third commitment of Lottery monies available for public transportation. The commitment is estimated for the next two fiscal years at \$309,400 and \$305,400 respectively.

### **Expenditure Structure**

The Transit Fund includes all personnel in Transit Administration, Planning and Operations. Major expenditures in the Transit Fund include: Fees and Services, Personal Services, Internal Services, Contingency, and Capital Outlay/All Other.

The following table depicts the major expenditure categories as a percentage of the total transit budget.

Major Expenditure Categories	FY 1999-00	FY 2000-01
Fees and Services	82.4%	84.9%
Personal Services	7.1%	6.8%
Internal Services	6.0%	5.4%
Contingency	2.8%	2.4%
Capital Outlay/All Other	1.7%	0.5%

### ■ Fees and Services

The largest expenditure in the Transit Fund is for Fees and Services, specifically funding for local and City of Phoenix transit routes and Dial-A-Ride services. In FY 1999-00, Fees and Services are estimated to

account for \$13 million or 82.4% and FY 2000-01 is estimated at \$16.2 million or 84.9% of the Transit Fund operating budget. This area is expected to increase to \$22.6 million by FY 2003-04.

### ■ Personal Services

Personal Services account for 7.1% of the total FY 1999-00 budget, or \$1,114,927 and 6.9% or \$1,305,556 of the FY 2000-01 budget.

### ■ Contingency

The contingency account remains constant for each of the two fiscal years at \$449,232. This amount represents 2.6% in FY 1999-00 and 2.4% in FY 2000-01. This funding has been set aside for vehicle replacement and unanticipated expenses.

### ■ Internal Services

Indirect cost allocations to the Transit Fund account for 6% or \$948,288 of the FY 1999-00 budget and 5.4% or \$1,017,598 of the FY 2000-01 budget. This amount represents the Transit Fund's share of certain administrative costs funded by the General Fund.

### ■ Capital Projects

Although not a part of the operating budget, funding for capital projects constitutes a significant portion of the total financial program in Transit. A large portion of each year's operating surplus forecast here will be applied towards new and replacement buses, a new Transit Center, and other related capital projects.



## Transportation Funds

### Fund Structure

#### Description

The Highway User Revenue Fund (HURF) and the Local Transportation Assistance Fund (LTAF) are Special Revenue funds that comprise the City's Transportation funds. They have been established to account for the receipt and expenditure of Tempe's allocation of state-shared Highway User taxes and state Lottery funds.

#### Major Services

- Studies and Design
- Operations
- Traffic Lights and Signal System
- Street and Field Maintenance
- Planning

#### Revenue Structure

Transportation revenues are derived primarily (80.4% in FY 1999-00 and 80.8% in FY 2000-01) from state-shared Highway User taxes. State Lottery proceeds account for 7.4% of FY 1999-00 Transportation revenues and 7.2% in FY 2000-01, while a transfer of General Fund monies required by state law (Maintenance of Effort) comprises the balance of Transportation funding.

#### ■ Highway User Tax

Highway User revenues come primarily (55%) from the fuel tax (currently \$0.18 per gallon), with the remainder from motor carrier fees (16%), vehicle license taxes (14%), vehicle registration fees (11%), and other transportation-related fees (4%). Estimates for the total pool of HURF revenues to be shared by cities will be \$265.5 million in FY 1999-00 and \$270.6 million in FY 2000-01, with Tempe's share at \$10.2 million and \$10.4 million, respectively. Experience has shown, however, that state projections for HURF revenue have not proven reliable. In short, HURF revenues are subject to state policy changes, fuel sales, and population growth, all factors beyond the City's control.

Pursuant to state statute, HURF monies can be used only for street and highway purposes, including right-of-way acquisition, construction, reconstruction, maintenance in the public right-of-way, and payment of debt service on highway and street bonds. HURF funds may not be used for transit programs. The outlook for HURF revenues is for gradually declining distributions to Tempe as our relative share of total statewide population falls.

#### ■ Lottery Proceeds

Lottery proceeds (Local Transportation Assistance Fund or LTAF), including Powerball revenue, are expected to be \$937,700 in FY 1999-00 and \$925,500 in FY 2000-01, representing a slight decrease, a trend that is likely to continue as long as Tempe's population growth remains below other cities. The distribution of Lottery funds is based on population, with all cities and towns receiving at least \$10,000. A \$20.5 million minimum total distribution pool is guaranteed to cities and towns. State law limits the distribution pool to a maximum of \$23 million.

Cities benefit from Powerball revenues only after a minimum amount of receipts are first collected by the state. Pursuant to state law, after the state Lottery director determines that deposits to the state general fund from all Lottery revenues have reached \$21 million, a maximum of \$18 million is to be paid to the LTAF from Powerball revenues for distribution to cities, towns and counties. The \$18 million statewide pool is divided into county pools based on each county's market share of Lottery ticket sales. Actual distributions to cities and towns are based on their share of the incorporated population within the county.

Generally, proceeds can be used only for street and highway projects such as construction or reconstruction in the public right-of-way. However, for cities in counties with populations of 1,200,000





persons or more, 1/3 of must be allocated to public transit (A.R.S. §28-2502

(F)). Thus, the forecast reflects the transfer of funds from Transportation funds to the Transit Fund.

#### ■ Maintenance of Effort

In addition to state-shared revenue sources, Transportation derives its remaining revenues from a "Maintenance of Effort" transfer from the General Fund. This transfer of locally-generated funding fulfills the statutory requirement placed on Arizona cities to maintain the expenditure of local revenue for streets at a level computed as an average of local funds expended for any four of the fiscal years 1981-82 through 1985-86. That obligation is calculated at \$1,850,000 for both fiscal years.

#### Expenditure Structure

Transportation funds include all personnel in Streets (Street/Field Maintenance). Major budgeted expenditures for the Transportation funds include: Debt Service, Personal Services, Internal Services, Utilities, Materials and Supplies, and All Other.

The following table depicts the major expenditure categories as a percentage of the total budget.

Major Expenditure Categories	FY 1999-00	FY 2000-01
Debt Service	37.8%	37.7%
Personal Services	25.6%	26.0%
Internal Services	17.3%	17.4%
Utilities	9.6%	9.8%
Material and Supplies	4.4%	4.3%
All Other	5.3%	4.8%

#### ■ Debt Service

The largest budgeted expenditure in the Transportation funds is for Debt Service, amounting to \$4.8 million of the total \$12.7 million budget in FY 1999-00 and \$4.9 million of the total \$13.1 million budget in FY 2000-01. Included in each budget year

is \$356,175 for a loan repayment to the Water/Wastewater fund. Debt Service will continue to be a major expenditure in this fund for the next five years, ranging from 28% to 42% of total fund expenditures. Unfortunately, one important downside to the large Debt Service is that it reduces the capital improvement capacity for transportation pay-as-you-go financing which would normally be funded by any net surpluses in this fund.

#### ■ Personal Services

Personal Services account for 25.6% or \$3.2 million in FY 1999-00 and 26% or \$3.4 million in FY 2000-01 of the total Transportation budgets and will likely continue in that range for the next few years. By FY 2003-04, Personal Services costs are expected to exceed \$3.9 million of the total budget.

#### ■ Internal Services and Utilities

Additional expenditure demands in the Transportation funds are for Internal Services and Utilities. Internal Services costs (communications, information systems and vehicle maintenance) represent 17.3% or \$2.2 million of the FY 1999-00 budget and 17.4% or \$2.3 million of the FY 2000-01 budget. Utility costs (electricity for street lights and traffic signals) account for another 9.6% or \$1.2 million in FY 1999-00 and 9.8% or \$1.3 million in FY 2000-01. The remaining expenditures are for Capital Outlay, Materials and Supplies and Contracted Services. These costs will be driven largely by inflation over the next five years.

#### Summary

Expenditures for Transportation increased from \$12.7 million in FY 1999-00 to an estimated \$13.1 million in FY 2000-01. The FY 1999-00 adopted budget does not include any appropriation of LTAF funding in the Transportation Fund. Rather, the amount of LTAF funding not transferred to the Transit Fund will be allowed to accumulate in the fund for future uses. Total Transportation revenues are projected to increase by 1% in both fiscal years to



\$12.7 million in FY 1999-00 and \$12.9 million in FY 2000-01. Although we are estimating some growth in revenue, that growth will be minimal at best. With population being the primary determinant for the distribution of state-shared HURF and Lottery revenues, Tempe's slower population growth relative to other cities will result in a diminishing share of these revenues for Tempe.

## Debt Service Fund

### Fund Structure

#### Description

A Debt Service Fund is maintained to receive dedicated revenues used to make principal and interest payments on the City's general obligation debt, except the debt service accounted for in Special Revenue and Enterprise Funds.

#### Revenue Structure

Debt Service Fund revenues are derived from the secondary property tax and the Salt River Project (SRP) Payment In-Lieu of Property Taxes. The property tax accounts for 93.7% in FY 1999-00 and 94.3% in FY 2000-01 of the Fund's revenue. Revenues from these sources can only be used to retire debt.

Debt Service revenue trends are a function of changes in assessed valuation and the City's secondary property tax rate. While changes in assessed valuations represent the effects of the marketplace and assessor methodology, the secondary rate is determined by City policy.

The FY 1999-00 secondary property rate is \$0.85 per \$100 of assessed valuation and is expected to generate \$10.3 million in FY 1999-00 and \$11.6 million in FY 2000-01. The City's property tax is levied each year on or before the third Monday in August based on the full cash value of property from the previous January 1 as determined by the Maricopa County Assessor.

Additional Debt Service revenues in each fiscal year include \$684,800 from the SRP Payment In-Lieu of Property Taxes and interest income of \$11,000.

Our estimate of FY 1999-00 secondary property tax collections was based on the commitment of the City to hold the overall property tax rate (primary and secondary) property tax rate to \$1.40 per \$100 of assessed valuation. Consistent with the City's debt management plan, we plan to issue the following debt:

Tax-Supported Debt		
Bonds	FY 1999-00	FY 2000-01
General Obligation	\$8,000,000	\$8,000,000
Transportation	2,000,000	0

Over the next five-year capital program, we plan to issue \$42 million of tax-supported bonds.

### Expenditure Structure

Expenditures in this fund are confined to principal and interest payments on voter-approved bonded indebtedness. To keep these costs in check, the Council adopted a long-range debt management plan, which is updated annually based on population growth, tax base growth, and current levels of general operating costs.

Projected outstanding long-term general obligation bonds at July 1, 1998 totaled \$115.4 million, including \$57.5 million in



Water/Wastewater bonds (not repaid by general tax revenues).

### **Summary**

Projected revenues for FY 1999-00 total \$11 million, a 17.4% increase from actual FY 1998-99 collections. FY 2000-01 projected revenues total \$12.6 million or an 11.5% increase over the prior fiscal year. Expenditures for FY 1999-00 are estimated at \$6 million and \$5.2 million in FY 2000-01. FY 1998-99 marked a reversal in the pattern of Debt Service Fund expenditures exceeding revenues, although previous shortfalls were fully covered by Debt Service reserves that had been accumulated for the purpose of funding lump sum principal payments. At least in the short term, assessed valuation growth should provide sufficient revenues to fund the City's debt service requirements.

### **Debt Management Criteria**

In response to the necessity to incur debt to finance capital projects, the City commissioned a debt capacity study in 1988 to determine the proper level of tax-supported debt as represented across key debt criteria. As a product of the debt capacity study, the City developed a Debt Management Plan (first released in March 1989) which has been updated annually. In keeping with the plan, the City has committed to debt criteria relating: (1) debt to full cash value; (2) annual debt service to revenues; and (3) debt per capita.

Outstanding tax-supported debt (property and excise taxes) is not to exceed 1.1% to 1.25% of the estimated full cash value. With outstanding tax-supported debt of \$115.4 million and estimated full cash value of \$10 billion, the City's estimated debt to full cash value for FY 1999-00 is 1.54% and is projected to decrease to 1.47% by FY 2002-03. The addition of \$47.1 million in excise tax debt for the Rio Salado Town Lake project contributed heavily towards the debt to full cash value ratio exceeding the goal range. These ranges, while not having been changed since the inception of the Debt Management Plan in 1989, top out in 2000, beginning a gradual decline after that date.

Our debt service policy is that annual tax-supported debt service is not to exceed 14%-16% of the total governmental revenue. In FY 1999-00, the estimated debt service to revenue ratio is 8.6% with \$12.6 million of annual tax-supported debt service and \$145.7 million of total governmental revenues. This is a favorable indicator of how the City's debt burden directly impacts financial operations and expenditure flexibility. The City's debt plan calls for outstanding tax supported debt per capita to be maintained within the range of \$450-\$500 per capita, with increases limited to no more than 50% within four years or 20% in one year. Our current indicator for July 1999 is \$713 per capita and is projected to increase to \$716 per capita by FY 2002-03. The issuance of debt for the Rio Salado project, plus purchase payment for buses have extended the debt per capita indicator beyond the goal range. residents.

## **Community Development Block Grant/Section 8 Housing Funds**

### **Fund Structure**

#### **Description**

The Community Development Block Grant Fund (CDBG) and the Section 8 Housing Fund are Special Revenue Funds, established to account for the receipt and expenditure of federal grant funding awarded to the city for redevelopment projects and rental subsidies for low income

### **Major Services**

- Slum and blight removal (CDBG)
- Rehabilitation of owner-occupied housing (CDBG)
- Rent and utility subsidies (Section 8)

### **Revenue Structure**

The table on the following page displays funding awarded to Tempe over the past



10 years. Both grants are awarded directly to the City from the federal government based on a funding formula which reflects such local factors as the percentage of people living in poverty, unemployment,

FYE	CDBG	Section 8
1991-92	\$1,020,608	\$3,416,128
1992-93	837,054	3,613,422
1993-94	1,912,125	3,725,246
1994-95	2,325,740	3,630,121
1995-96	1,610,050	3,719,248
1996-97	1,821,572	3,845,212
1997-98	2,577,955	3,861,578
1998-99*	2,895,618	3,843,159
1999-00*	2,330,767	5,338,912

population, the age of existing housing, and the need for housing.

\*Estimated

### **Expenditure Structure**

Pursuant to federal requirements, most CDBG and Section 8 funding is expended on property rehabilitation and rental subsidies. In FY 1999-00, 9.6% is earmarked for salaries and benefits, with another 7.6% allocated to contingencies and miscellaneous expenses, and in FY 2000-01, 10.3% is earmarked for salaries and benefits, with another 7.1% allocated to contingencies and miscellaneous expenses.



## Enterprise Funds

### Water/Wastewater Fund

#### Fund Structure

##### Description

The Water/Wastewater Fund is a self-supporting enterprise fund used to account for water and wastewater treatment operations, including debt service. It is financed and operated similarly to a private business and intended to recover costs through user charges. Revenues earned, expenses incurred, and/or net income is appropriated for Capital maintenance, public policy, management control, accountability, or other purposes. Other enterprise funds include the Sanitation and Golf Funds.

##### Major Services

This budget provides for:

- Water/Wastewater Administration
- Water Resource Management
- Water Conservation
- Water Quality
- Transmission & Collection
- Technical Services
- Wastewater Reclamation
- Environmental Services
- Customer Services
- Irrigation

##### Revenue Structure

User fees account for 90.8% or \$37.7 million of the \$41.6 million in total fund revenues in FY 1999-00 and 91.7% or \$38.2 million in FY 2000-01. Water/Wastewater revenues are derived from Water and Irrigation User Fees, Wastewater User Fees, Interest Income, and All Other.

The following table depicts the major revenue sources as a percentage of total fund revenues.

Major Expenditure Categories	FY 1999-00	FY 2000-01
Water and Irrigation User Fees	56.7%	57.3%
Water User Fees	34.1%	34.4%
Interest Income	6.0%	5.1%
All Other	3.2%	3.2%

##### ■ Water and Irrigation User Fees

Water and irrigation user (consumption) fees provide \$23.6 million or 56.7% of the total Water/Wastewater Fund revenue in FY 1999-00 and \$23.8 million or 57.3% in FY 2000-01. This revenue amount reflects an estimated 41,000 accounts for drinking water and 1,146 irrigation water accounts.

##### ■ Wastewater User Fees

Over 38,000 Wastewater Service accounts are estimated to produce \$14.2 million or 34.1% in FY 1999-00 and \$14.3 million or 34.4% in FY 2000-01 of the total user fee revenues. Residential wastewater charges are largely driven by water consumption in that monthly billings are based upon a three month Winter average consumption.

##### ■ Interest Income/All Other

Cash balances in the Water/Wastewater Fund are expected to generate \$2.5 million in Interest Income during FY 1999-00 and \$2.1 million in FY 2000-01, or 6% and 5.1% of the Fund's total revenues respectively. Other sources of fund revenues include a loan repayment from the General Fund, land and building rental fees, delinquent payment charges, and miscellaneous fees and charges.

## Expenditure Structure

Total estimated operating expenses for FY 1999-00 are \$36.6 million and \$37.4 million in FY 2000-01. Together, Debt Service, Personal Services and Wastewater Plant Regional Operating Expenses represent 65% and 64.4% of the total operating expenses respectively for the two fiscal years.

The following disaggregates the composition of fund expenditures earmarked for Debt Service, Personal Services, Wastewater Plant Regional Operating Expenses, Internal Services, Electricity and Water, and All Other.

Major Expenditure Categories	FY 1999-00	FY 2000-01
Debt Service	32.0%	30.6%
Personal Services	22.0%	22.5%
All Other	16.9%	16.7%
WW Regional Expenses	11.0%	11.3%
Internal Services	10.6%	10.8%
Electricity and Water	7.5%	8.1%

### ■ Debt Service

Debt Service accounts for 32% of total estimated expenses for FY 1999-00 and 30.6% for FY 2000-01, indicative of the capital intensive nature of a water/wastewater operation

The City plans to issue \$43.5 million in new debt in this fund through FY 2003-04. Water/Wastewater annual debt service peaked at \$14.7 million in FY 1992-93, which included a large principal repayment coming due on a previous debt issue. The debt service obligation budgeted for FY 1999-00 is \$11.7 million and \$11.4 million in FY 2000-01.

### ■ Personal Services

Personal Services represent \$8.0 million or 22% in FY 1999-00 of Water/Wastewater operating expenditures and \$8.4 million or 22.5% in FY 2000-01. For FY 1999-00, Salaries and wages account for 81.5% of the total Personal Services budget, followed by

health insurance at 8.7%, FICA at 6.2%, retirement at 2.2%, and other 1.4%. For FY 2000-01, Salaries and wages account for 80.8% of the total Personal Services budget, followed by health insurance at 9.5%, FICA at 6.2%, retirement at 2.2%, and other 1.3%.

Re-engineering efforts and competitiveness studies conducted during FY 1998-99 resulted in the elimination of 3 FTE position.

### ■ Wastewater Plant Regional Operating Expenses

Tempe participates in an intergovernmental agreement for the construction, operation, and maintenance of jointly used facilities, including the 91<sup>st</sup> Avenue Wastewater Treatment Plant, Salt River Project Outfall Sewer and the Southern Avenue Interceptor. The City pays for upgrades based on relative sewage flows and strengths.

Expenses associated with the 91<sup>st</sup> Avenue Plant represent \$4.0 million or 11% of the FY 1999-00 total and \$4.2 million or 11.3% in FY 2000-01. Excess sewer capacity will continue to be purchased to accommodate increasing flow demand. Planning and cost-benefit assessments are currently underway to estimate the costs associated with additional sewage treatment capacity and available alternatives.

### ■ Internal Services

Internal Services costs for information systems, communications, vehicle maintenance, and indirect charges account for \$3.6 million or 10.6% of FY 1999-00 Water/Wastewater expenses and \$4.0 million or 10.8% in FY 2000-01.

### ■ Electricity and Water

Utilities comprise a major expense within this fund, as substantial electricity and water is required to provide these services. For FY 1990-00, electricity and water are budgeted at \$2.7 million, or 7.5% of total



expenses and \$3.0 million or 8.1% in FY 2000-01.

■ **All Other**

Other major budgeted expenses include chemical supplies, contingencies, water quality testing and contracted services.

**Summary**

FY 1999-00 estimated operating expenses for the Water/Wastewater Fund are \$36.6 million, a 1.4% or \$484,863 decrease from FY 1998-99 expenses. Tempe's shared cost to operate the 91<sup>st</sup> Avenue Wastewater Treatment Plant is expected to decrease.

Overall, expenditure growth was held down by re-engineering efforts and competitiveness studies conducted by the Water Management Division.

Revenues for FY 1999-00 and FY 2000-01 are projected to be \$41.6 million, a 1% increase over FY 1998-99 collections. In the two fiscal years, rate adjustments are planned to bring the Wastewater operation closer to full cost recovery. Sewer rate increases will continue the phased-in approach, adjusted to attain full cost recovery as customer charges are based upon water consumption and strength of discharge into the sewer system.

**Sanitation Fund**

**Fund Structure**

**Description**

The Sanitation Fund is a self-supporting enterprise fund intended to recover all operating, maintenance, and debt service costs to provide residential, commercial, recycling and roll-off solid waste services.

**Major Services**

This enterprise fund provides for:

- Residential Collection
- Commercial Collection
- Recycling Collection
- Roll-Off Collection

**Revenue Structure**

Revenue in the Sanitation Fund derives almost exclusively from user fees for residential, recycling, commercial, roll-off, and uncontained solid waste service. These revenues are supplemented by a small amount of interest revenue. The collection and disposal of contained refuse represents the City's second largest enterprise operation.

■ **Residential Solid Waste User Fees**

Residential solid waste user fee revenues are expected to amount to \$4.9 million in each fiscal year or 51.9% and 52.2% of the total revenues for this fund. Residential customers pay \$11.75 per month and the number of active accounts total 34,065.

■ **Commercial Solid Waste User Fees**

Commercial solid waste fees generate \$3.2 million or 34% of the total fund revenues in each fiscal year. Collection of commercial solid waste is provided by the City or a licensed collector. The number of active commercial accounts total 1,925. The number of commercial accounts is expected to remain steady and could decline as competition for commercial refuse services increases.

**Expenditure Structure**

Sanitation estimated expenses for FY 1999-00 total \$10.6 million and \$10.3 million in FY 2000-01. Of the total FY 1999-00 operating expenses, Personal Services, Internal Services and Landfill Usage Charges comprise 77.1%. Capital Outlay accounts for 18.2%, while the remaining 4.7% is for Materials and Supplies, Utilities, and miscellaneous Fees and Services. In FY 2000-01, Personal Services, Internal Services and Landfill Usage Charges comprise



81.8%. Capital Outlay accounts for 13.5%, while the remaining 4.7% is for Materials and Supplies, Utilities, and miscellaneous Fees and Services.

Major Expenditure Categories	FY 1999-00	FY 2000-01
Personal Services	28.2%	30.6%
Landfill Usage Charges	25.4%	26.0%
Internal Services	23.5%	25.2%
Capital Outlay	18.2%	13.5%
All Other	4.7%	4.7%

#### ■ Personal Services

As with many labor intensive operations, Personal Services represent a major expense in the Sanitation Fund, accounting for \$3 million or 28.2% of the \$10.6 million FY 1999-00 budget and \$3.2 million or 30.6% of the \$10.4 million FY 2000-01 budget. Respectively, for each of the fiscal years, salaries account for 80% and 79.1% of the total personal services budget, with health insurance accounting for 10.5% and 11.4%, and the remainder for other fringe benefits.

#### ■ Landfill Usage Charges

Landfill usage charges remain constant in each of the fiscal years at \$2.7 million, representing 25.4% and 26.0% of total expenses, respectively. Landfill tipping fees are projected to follow expected inflation rates, but environmental compliance

requirements could impact these expenses beyond normal inflation.

#### ■ Internal Services

Internal Service charges represent 23.5% or \$2.5 million of the total FY 1999-00 budget and 25.2% or \$2.6 million of the total FY 2000-01 budget. Internal Service charges consist of data processing, communications, vehicle maintenance and other related charges. As might be expected in sanitation operations, a majority (54.6% and 56.2%, respectively) of the total internal service costs derive from vehicle operating and maintenance expenses.

#### ■ Capital Outlay/All Other

The Sanitation budget reflects appropriations of \$2.4 million and \$1.9 million in the two fiscal years for replacement of refuse trucks. Other budgeted expenses include recycling sorting fees of \$156,064 each year.

#### Summary

The Sanitation Fund budget of \$10.6 million for FY 1999-00 and \$10.4 million in FY 2000-01 represents a \$200,000 decrease. This is primarily due to planned replacement of five refuse trucks in FY 1999-00 and two in FY 2000-01.

Revenues in this fund are expected to remain relatively constant at \$9.4 million in both fiscal years, reflecting a 1% increase over FY 1998-99 collections.

## Golf Fund

### Fund Structure

#### Description

The Golf Fund is a self-supporting enterprise fund similar to the Water/Wastewater and Sanitation Funds, intended to recover all costs incurred through user charges. All activities necessary to provide such services are accounted for in this fund, including administration, operations, maintenance and debt service.

#### Major Services

- Ken McDonald and Rolling Hills Golf Course Operations
- Pro Shops
- Restaurants

### Revenue Structure

For both years, revenues from greens fees account for 85% of golf course revenues, with the balance derived from a share of pro shops and restaurant revenues.



### ■ Greens Fees

Greens fees amount to \$2.2 million in FY 1999-00 and \$2.3 million in FY 2000-01 of the total Golf Fund revenues. Green fees are set by Council and were last adjusted in June 1999 when greens fees for nine holes for non-residents during the Summer increased by \$1. Projections in the two fiscal years are conservative to reflect the volatility that can result from weather conditions or fee changes.

Total rounds in FY 1998-99 for Ken McDonald (9 and 18 holes) and Rolling Hills (9 holes) were 98,000 and 138,000 rounds respectively.

### ■ Pro Shop and Restaurant Revenue

Pro shop revenues for Rolling Hills are paid to the City by the pro shop based on annual receipts. A minimum payment of \$42,000 a year is paid in advance or 10% of the gross annual receipts, depending on which is greater for the first 5 year term. The second 5 year term is \$46,000 or 11%, and the third 5 year term is \$50,000 or 12%. The restaurant concessionaire pays revenue of \$1,700 per month plus a 4% increase per year since July of 1987. During the first and second five year terms, pro shop revenues at Ken McDonald Golf Course are based on the greater sum of either \$10,000 a month, or the combined sum calculated annually of 20% of the gross cart rental revenues and 10% of the remaining gross receipts not including golf cart revenues. Restaurant revenue is paid to the City monthly, \$2,000 per month with a 3% increase per year thereafter.

### Expenditure Structure

A review of Golf Fund expenditures reveals that Personal Services and Fees and Services represent the major expenditure areas. Together they account for 61.1% in FY 1999-00 and 64.2% in FY 2000-01 of total Golf Fund expenses. The remaining expenses include Internal Services, Debt Service, Materials and Supplies, and Capital Outlay.

Major Expenditure Categories	FY 1999-00	FY 2000-01
Personal Services	43.9%	46.8%
Fees and Services	17.2%	17.4%
Internal Services	17.5%	18.0%
Debt Service	7.0%	6.9%
Material and Supplies	7.0%	7.0%
Capital Outlay	7.4%	3.9%

### ■ Personal Services

Personal Services account for \$943,222 or 43.9% of FY 1999-00 appropriations and \$1,000,749 or 46.8% of FY 2000-01. Salaries and wages alone represent 79.8% and 79% respectively of total Personal Services, with health insurance and FICA accounting for an additional 16.7% and 17.6% for the two fiscal years. The remainder is for retirement and other benefits.

### ■ Fees and Services

Budgeted expenses account for 17.2% and 17.4% in each fiscal year and primarily fund irrigation water and electricity.

### ■ Internal Services

Golf operation internal service costs are primarily vehicle maintenance and fuel.

### ■ Capital Outlay/All Other

Other major budgeted expenses include Materials and Supplies and Debt Service.

### Summary

Golf Fund appropriations for the two fiscal years remain relatively constant at \$2.1 million, an increase of 1% over FY 1998-99 expenses.

Revenues are expected to generate \$2.3 million in both fiscal years. By financial policy, the City maintains an unrestricted optimum fund balance level of at least 10% of anticipated revenues. The FYE 1998 fund balance reserve was \$1,397,897 or 60.9% of estimated FY 1998-99 operating revenues.